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SUBJECT: ECHOES OF WORLD ECONOMIC CRISIS SOUND IN GABON

REF: 08 Libreville 423

¶1. SUMMARY: With an economy almost entirely dependent on the export of raw materials -- mainly petroleum, manganese, and timber -- Gabon has experienced significant recessionary effects linked to the current international economic crisis. Private sector decision-makers are taking a cautious approach to further investment in the oil, mineral, and timber sectors. Short-term measures include production slowdowns and holidays. With lowered projections for export revenues, the government has already reduced Gabon's 2009 national budget by 28 percent and is likely to make further cuts. Reductions in production, exports, and revenue have been exacerbated by the failure of the government to carry out plans to diversify the economy, strengthen the domestic agricultural system, and improve governance. It remains to be seen whether the economic crisis may trigger more serious economic reform efforts by the government. END SUMMARY.

PETROLEUM SECTOR

¶2. Petroleum is the primary source of public revenue in Gabon, making up 63 percent of the national budget and 51 percent of GDP. Last year's precipitous fall in the price of a barrel of crude oil from USD 147 in July to less than USD 37 by the end of December had significant, immediate effect on Gabon's economy. The government reduced the 2009 national budget by 28 percent before the end of ¶2008. In late January, plans for a second reduction were announced, though the size of these further cuts has not yet been made public. Moreover, the Minister of Mines anticipates an eight percent drop in oil production over the next year, as well as a notable slowdown in activities tied to production including exploration, transformation, and distribution. According to the chief of a December 2008 IMF mission to Gabon, "A significant decline in oil revenues could affect growth over time through a slowdown in the non-oil sector and public investment program."

¶3. The general consensus among oil industry representatives is that the current worldwide crisis will not affect Gabon's petroleum sector in the long-term, which was experiencing a gradual decline in production even before the onset of the crisis. However, in the short- and medium-term, management plans have been modified, with many exploration and investment projects (particularly those from smaller oil industry players) being suspended until a resolution of the crisis is in sight. At least one industry representative, however, the CEO of Total Gabon, is maintaining an optimistic public outlook, proclaiming at a government-sponsored conference on the crisis, "We are committed to being here [in Gabon] for the long-term, and our actions in response to the current slowdown are

aimed at allowing us to fulfill that commitment."

MINING SECTOR

¶4. Gabon's mining sector -- dominated by the production of manganese, a component of steel -- has been significantly affected by the international economic crisis. Plummeting consumption and production in the construction and automobile industries led to a substantial decline in demand for steel in 2008. By October 2008, worldwide steel production had dropped by twelve percent compared to one year earlier, with overall production falling more than thirty percent during the last quarter of 2008. According to the CEO of French-controlled COMILOG, the sole manganese producer in Gabon, the company was forced to respond to the fall in demand for steel and its components by immediately adjusting production. Thus, the company's monthly rate of production during November and December of 2008 fell from 600,000 tons to 300,000 tons, yielding an annual production of 3.3 million tons for 2008 rather than the expected 3.6 million tons.

¶5. More dramatically, projections for domestic manganese production for 2009 have been adjusted from 3.75 million tons to 2.5 million tons. COMILOG intends to maintain the company's current workforce in the short- to-medium-term, while taking other measures to reduce production. These measures include a halt in production for between four and six weeks out of the year (COMILOG already instituted a temporary standstill in operations from December 22, 2008 through January 12, 2009), elimination of overtime, reduced use of sub-contractor services, and the postponement of thirty percent of planned infrastructure development projects. COMILOG's immediate outlook is uncertain, with the CEO characterizing the current crisis as being of "unprecedented scale...with a significant risk of extending through, and even beyond, 2009."

LOGGING SECTOR

¶6. Gabon's logging sector has been rocked by the steep fall in worldwide demand for raw lumber and finished wood products due to the subprime mortgage crisis and slowdown in the U.S. and European housing markets. China is the primary importer of Gabon's raw lumber, destined to be transformed into plywood; China saw its sales of plywood to the U.S. drop by fifty percent during the third quarter of 2008. During the same period, France (the principal destination for Gabon's finished wood products) saw a 44 percent decline in new house sales. Gabon felt the direct impact of decreased European and Asian demand through an eleven percent decrease in its raw timber exports in 2008. Overall, raw timber production fell by nineteen percent and the wood products sector grew by only 2.5 percent during 2008. The downturn in Gabon's logging sector was especially notable given the high growth in the sector in recent years, including a 21 percent increase in exports from 2006 to 2007.

¶7. Decision-makers in Gabon's logging sector have responded to the crisis by slowing down or even halting production. Observers expect foreign companies to reduce or close their operations in Gabon if things do not improve during 2009. Trees that had been felled in preparation for transport to market are now being left to rot in the forest, a business necessity given the drastic fall in prices. For example, the current sale price of a cubic meter of Okoume, a species used to make plywood, is USD 400 below the cost of production. In addition, the effects of the crisis have already been felt by labor, as numerous logging companies have laid off contractual workers as well as directing full-time employees to take their annual leave ahead of schedule. Some companies have been able to minimize the impact on their workforce by redirecting it towards sawmill activities, as domestic demand has so far remained steady.

AGRICULTURAL SECTOR

¶8. While approximately 35 percent of the population is engaged in agricultural production, agriculture only contributes about five

percent to GDP, and only two percent of arable land is currently under cultivation. The Ambassador recently visited Woleu-Ntem Province, the center of Gabonese agricultural production, and witnessed first-hand the effect of the global economic crisis. A trip to the SIAT rubber plantation revealed that the price for rubber had decreased from 3 USD to 1 USD/kg. A visit with the Planters Association showed that they had stopped producing coffee and cocoa because of the decrease in prices. Instead, they are now raising livestock (pigs). In spite of promised government funding for the revitalization of the coffee-cocoa sector, the producers themselves have yet to feel the effects of this program.

¶9. Gabon relies heavily on food imports, which account for about sixty percent of domestic food consumption (reftel). The Minister of Agriculture anticipates an increase of as high as fifty percent for the price of imported food in the coming year. While the Government of Gabon aims to increase agricultural production by 45 percent by 2015 in order to reduce dependence on foreign imports, public sector investment in agriculture decreased from 2.5 percent in 2005 to 1.4 percent in 2008. The Minister of Agriculture recently announced the injection of USD 181 million over the next five years for small agro-businesses in an effort to stimulate and diversify domestic agricultural production. Despite high urbanization, poor road infrastructure, and a weak capacity to exploit the land, the agricultural sector is perceived as having the potential to contribute significantly to economic diversification and the fight against poverty in Gabon.

GOVERNMENT'S RESPONSE

¶10. Government authorities continue to consult with the IMF, the World Bank, donor countries, and the private sector in designing Gabon's medium- and long-term strategies for economic diversification, seen as the key to dealing with periods of global economic instability such as the current crisis. According to an IMF official, Gabon has "indicated its readiness to adopt a number of measures in the event that the global economic situation remains unfavorable for an extended period...The current crisis underscores the importance of diversifying the economy, which remains reliant on the hydrocarbon sector." Such measures include investment in infrastructure, agriculture, education, and health; a revision of Gabonese tax law; the reduction of interest rates and greater access to credit for small and medium-sized businesses; and efforts to fight corruption and improve governance and the rule of law.

¶11. In the short term, the government has pledged to help improve the purchasing power of Gabonese households through social welfare programs, such as the supplying of free water and electricity to the poorest families. In addition, January 2009 was marked by the acceleration of the process of tax reimbursement for logging companies, with the wait time reduced from ninety days to forty days. Finally, government efforts to boost the petroleum sector include the adoption of a mining and petroleum law designed to clarify the legal framework concerning investment in these sectors, the sponsoring of an international conference on geology and mineral resources in Gabon in September 2009, and plans for a tenth round of bidding for deep offshore blocks in the first quarter of 2010.

¶12. COMMENT: It is fair to say that Gabonese authorities have access to sufficient, even abundant, analysis of the factors impeding the country's economic development, as well as the steps needed to resolve them. What is lacking is the political will to do so. The current crisis, with its considerable effect on Gabon's main sources of revenue and its population, has once again brought to the forefront the need for economic diversification and improved governance. If there is a silver lining to be found, it is that the current crisis may compel Gabon's decision-makers to finally initiate serious economic reform to avoid social and political unrest. END COMMENT.

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